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CRITERIA USED IN THE SELECTION OF PRODUCTS FOR  
THE EXPORT MARKET

by

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Working paper

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## INTRODUCTION

It would be outside our field of competence to go into a description of the importance of foreign trade within the process of economic and industrial development in any country, whether it be highly developed or developing.

Immediately after the Second World War, the developing countries were brought face to face with the problem of promoting economic and industrial development, with major emphasis on exports, as a result, inter alia, of the deterioration in the terms of trade as between the raw materials they supplied and the capital goods and perishable and durable consumer goods which they imported from the developed countries.

The developing countries' efforts to increase and diversify exports have been concentrated on the creation of new branches of export activity and on taking advantage of existing installed capacity to produce goods for the world market.

Although we cannot ignore the fact that many developing countries have made serious efforts to increase and/or diversify their natural resources in the fields of agriculture, livestock and mining, it is clear that the greatest emphasis has been and continues to be placed on manufacturing.

One especially important feature of foreign trade development strategy concerns the criteria used in the selection of products for the export market.

The aim of the present document is precisely to begin to analyse some of the factors that influence the selection and development of products for the export market.

Basically, the document deals exhaustively with industry and manufacturing, and attention is focused on specific cases as far as possible.

## I. SUMMARY

The basic purpose of this document is to analyse export production from the points of view of:

- (a) The principal factors in such production: technology, natural or human resources. Export products based on capital resources have not been dealt with, since they are not common to developing countries, where capital resources are not found to exist side by side with local infrastructure, technology or human resources.
- (b) The origin of the export product; in other words, whether it is a surplus product or one specifically produced for the external market by an export industry.

In each case, an analysis is made of the factors most relevant to the problem, that either limit or encourage the export process.

An attempt has been made to provide concrete illustrations based, generally, on the author's own experience.

An attempt has also been made to list a number of suggestions for the relief or elimination of the difficulties that are shown to exist; that is, a part of each chapter is devoted to suggestions or recommendations.

In the last chapter, a number of general conclusions are drawn, complementing the specific suggestions contained in previous chapters.

## /II. PRINCIPAL

## II. PRINCIPAL FACTORS IN THE PRODUCT

A simple classification can be made of the main factors in the export product: labour, technology and raw materials.

An analysis of the industrialization process in most developing countries shows that import substitution, rather than the development of manufacturing for the export market, has been the leit-motiv of that process.

Apart from the purpose of generating savings in foreign exchange, the industrialization process is generally geared to the creation of new sources of employment, with emphasis on the creation of labour-intensive activities.

The above is, at first sight, a strong incentive to the development of an export industry, but, if they are to compete on the international market, exports of manufactures must meet certain conditions in respect of quality, design and price, inter alia. These conditions are bound up with the concept of the efficiency or productivity of labour and must be considered from the point of view of quality, availability and yield. These factors are very important, since the promotion of export products is often largely based on:

- (a) The need to create new sources of employment;
- (b) The availability of abundant, cheap labour.

Unfortunately, the availability and cost of labour do not always go hand in hand with reasonable productivity levels. Exports of Chilean footwear are a case in point.

Two years ago Chile started a programme for the development of exports of footwear to the North American market, taking advantage of the high quality and lower cost of Chilean labour compared with North American labour.

A preliminary on-the-spot analysis carried out by experts in the field showed that, although the Chilean industry had enough basic equipment to start exporting, the productivity of the workers would have to be improved considerably. (At the time the study was carried out, a North American worker produced 12-14 pairs of shoes a day, a Spanish worker, 9 pairs, and a Chilean worker, 5 pairs a day.)

/Mention should

Mention should be made of another important aspect in addition to the efficiency and productivity of labour, as we are dealing with the development of export industries relying more heavily on employment than on any other factor.

With some exceptions, the developing countries tend to concentrate their export efforts on specific products that could almost be defined as conventional or traditional: textiles, ready-made articles, footwear, furniture, etc. The excess of supply over demand leads to less remunerative prices and to a deterioration in the terms of trade.

In consequence of the above, in addition to the strategy for the promotion of exports based on local labour, there is a trend towards a new approach:

- (a) Exports based on the exploitation (manufacture) of the country's natural resources.
- (b) Exports based on the sale of local or imported technology.

In the chapters that follow an attempt will be made to analyse each of the three factors on which the promotion of exports can be based.



### III. EXPORTED PRODUCTS INVOLVING THE USE OF TECHNOLOGY

#### 1. General situation

The export promotion policies of developing countries nowadays show an increasing trend, or aspiration, towards the exportation of products entailing a transfer of technological know-how.

This enables them to raise the added value of their export lines and, it seems, make them more competitive on the world market (quite apart from the advantages for their domestic industrial growth of a form of specialization in which the emphasis is placed on technology).

This approach, moreover, helps the countries develop a negotiating capacity or bargaining position that offsets to some extent an external dependency that may be more than strictly economic.

In such cases, products can be classified according to whether their manufacture involves the use of (a) a technology which is indigenous to the exporting country, or (b) an acquired technology, generally deriving from a highly industrialized country.

#### 2. Growth of domestic technology

The first case is not very common, even though all countries have in recent years demonstrated a growing concern for technology, particularly from the standpoint of developing their own know-how.

The author's experience of the activities of various Latin American and certain Far East countries in this field suggests that the growth of technology (based on applied research at the university level, or through technological institutes, and usually financed by the State) is geared to improving manufacturing processes or product designs for import substitution purposes rather than to the creation of new export lines.

There have, in fact, been a few instances where the element of industrial design - in so far as the artistic factor takes precedence over the technological aspect - has provided a basis for exports, but such cases have not yet come to carry much weight in the over-all volume of exports.

/Argentina, for

Argentina, for example, has developed certain lines of products through its Institute of Industrial Design (ceramics, tableware, ornaments, etc.,) that are beginning to find a market outside the country. Chilean textiles are another example: although the country has not yet managed to export materials because of structural shortcomings in the textile sector, it does export textile designs.

### 3. Acquisition of external technology

As regards the acquisition of technology from abroad, this may involve a transfer of: trade marks, know-how, quality control, mixtures and processes, periodic technical assistance, patented processes, formulae for raw materials, foreign training of personnel, operational technical assistance, occasional technical assistance, local training of personnel, industrial models, technical assistance for installation purposes, patents, miscellaneous (management, intellectual rights, etc.),

Technological assistance may take the form of a transfer of any or all of the above elements.

The various ways in which technology can be transferred is one of the most topical subjects currently being studied by international organizations.

The Organization of American States, for example, is carrying out research in this field for Latin America; it is being examined by study groups under the Cartagena Agreement; the United Nations General Assembly has given UNCTAD a mandate to take up the subject in its Division for Invisibles; and so on. A number of universities throughout the world are also studying the problem at the international level, (one of the outstanding examples being Sussex University in England). The following brief points can be made:

(a) The transfer of technology, particularly through the system of royalties (and, to a lesser extent, through investments of foreign capital and sales of machinery and equipment) is generally aimed at stepping up domestic production for import substitution purposes, rather than at manufacturing a product for the export market.

/(b) In

(b) In a high percentage of cases, the transfer of technology is restricted to extremely general aspects that are not conducive to making the beneficiary independent of the foreign licensor.

(c) The transfer of external technology frequently does not contribute to the development of an exportable product (in many cases, exports to certain areas considered to be the preserve of the licensor are expressly prohibited). On the other hand, the transfer often entails an obligation to import from the source of the technology (through contracts for raw materials, intermediate products, machinery, equipment or other kinds of input, in addition to technical assistance for assembly or operational purposes) at prices that are inclined to be higher than those prevailing on the international market.

(d) As a result of the acquisition of external technology, the growth of local know-how in the same industrial sector tends to slow down or stop altogether.

(e) The preliminary report of CORFO's analysis of contracts involving royalties that were in force in Chile between 1966 and 1969, which is now available, highlights a number of highly significant aspects from the point of view of an export strategy based on the sale of technology acquired abroad. Out of more than 500 enterprises operating under foreign licenses that were investigated, only twenty-four indicated that they effectively had the possibility of exporting their products abroad, making an over-all export value of around 2,500,000 dollars for 1969.<sup>1/</sup>

Against that figure, Chile paid 8,200,000 dollars in royalties during the same year, to which must be added the voluntary or compulsory acquisition of raw materials, final products and machinery, other purchases and remittances on contracts. All in all, the total disbursement of the country for 1969 was 36,700,000 dollars, or fifteen times the total value of exports effected under those contracts.

Although the transfer of technology is not exactly the theme of this document, a few basic statistics such as these should be useful in defining a position towards an export-promotion strategy based on the acquisition of external technology.

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<sup>1/</sup> Most of this amount was made up of exports effected under the ALALC motor-vehicle exchange agreement.

The immediate conclusions to be drawn from the example above, taken from what is perhaps one of the most systematic analyses ever made on the subject among developing countries, show that the problem of the transfer of technology, whether for import substitution purposes or, better still, for the promotion of new exports, has not yet been solved.

From the author's discussions with technical experts in several developing countries, both in Latin America and the Far East, it would seem that the situation is the same elsewhere, too.

#### 4. Towards a better utilization of acquired technology

The following are some of the measures that could be taken by developing countries with a view to making better use of their licenses and, more generally, of the acquisition of foreign technology for promoting exports:

(a) Revision of all license contracts containing restrictive clauses of any kind: external market restrictions, compulsory purchases from specific sources, limitations on the use of trade marks, etc.

(b) Special control to ensure that the technologies acquired are not obsolete or likely to become so in the short term (this would require a permanent and up-to-date information system such as developing countries rarely possess; an alternative solution, could be the creation of a Bank of Technology at the world or regional level).

(c) Supervision of the real capacity of the licensee to assimilate the technology offered (technical and administrative capacity, existing machinery and plant, financial capacity, general infrastructure of the enterprises).

(d) Selection of products and technologies whose life cycle is compatible with the financial and manufacturing demands which its production imposes on a developing country (generally applicable to small-scale production lines that are difficult to amortize over a short period).

(e) Refusal of contracts for industrial models in favour of contracts for processes, implying a greater degree of know-how than the mere operation of the equipment or machinery that may be offered or suggested by the licensor (with a view to developing a domestic technology for manufacturing the product with the aid of external technology).

/(f) Guaranteed

(f) Guaranteed outlets for the product to be manufactured by the country prior to taking out the license or together with the acquisition of foreign equipment or machinery.

India, for example, frequently insists on guaranteed outlets before authorizing the purchase of currency for imports of foreign equipment. In Chile, the Government grants partial or total exemptions from customs duties on imported equipment against guarantees of a given volume of exports within a fixed period.

A third interesting case is that of certain countries providing capital goods: Bulgaria, for instance, has sold vegetable dehydrators for garlic, onion, etc., against a guarantee to export part of their production, the proceeds from which pays off the cost of the plant.

#### IV. THE CASE OF EXPORTS BASED ON THE SUPPLY OF RAW MATERIALS

##### 1. General comments

A supply of raw materials does not always constitute an immediate and suitable basis for generating a flow of exports. This statement holds good even in cases where the raw materials themselves are being exported. For example, the existence of bauxite resources as a basis for aluminium production or of iron ore for the steel industry is not in itself sufficient unless there is a proper infrastructure and enough capital and technology to allow of a scale of production and techniques that can stand up to international competition.

Other factors that have to be borne in mind with respect to raw materials are whether they are renewable or non-renewable; whether they are likely to become obsolete or to be replaced by other materials; and whether they are of strategic value.

In order to come to policy decisions concerning raw materials, it is necessary to have data on the trends, development, characteristics, projected demand, etc., of the world market concerned that provide a view not only of the current situation but also of future prospects (in the latter case, very valuable research work and studies are being undertaken by organizations such as the Hudson Institute and the Rand Corporation, both United States Organizations).

For example, in the case of a non-renewable resource such as copper, it is very important to try to estimate market trends in the medium and long term as well as the short term, in view of the fact that copper has to compete with aluminium and also with plastic conductors in electrical uses.

Countries have to be very careful in the selection of the raw materials they develop for export, since it often appears difficult to derive advantage from them as manufactures. This is the case of such products as tea, coffee, sugar, bananas, etc., although they are extremely attractive because their production is highly labour-intensive and cannot easily be mechanized. Proposed solution: an in-depth research study to determine the possibilities

/for making

for making use of such products, alternative uses for them, and different forms of marketing them, for example tea either loose or in tea-bags, in tablet or concentrated form, etc.

There are, however, a number of raw materials based on natural resources that can be processed without requiring a great deal of capital or technology, for example products of the agricultural or forest sectors which are normally more labour-intensive than capital-intensive. This makes such products especially attractive to the developing countries, many of which are short of capital and have surpluses of labour.

It may be useful to consider what may happen if the export market for these sectors is developed, and the Chilean experience will be used as an illustration.

## 2. Example: Forest sector products

The primary forest export products are roundwood and sawnwood. Other important products are pulp and paper which can become export products provided the raw materials are cheap and the industrial facilities are adequate (Chile is a typical example here, since its pinus insigne resources have one of the fastest growth rates in the world).

In the forest sector, one may move to the "secondary sector", i.e., the sector with a higher degree of processing and value added, without this necessarily involving an excessively large demand for fixed capital investment.

For example, the production of decorative mouldings, plywood and veneers and more processed products such as furniture and housing units raises the value of the raw materials several times over.<sup>2/</sup>

<sup>2/</sup> According to data from Mr. Landertinger, ILO expert on wood technology, the following is the value added in Chile to raw forest materials:

<u>Product</u>	<u>f.o.b. per ton</u>
Sawnwood	1 350
Mechanical pulp	1 600
Dry bleached kraft	2 390
Newsprint	2 100
Mouldings (larch)	3 510
Plywood (araucarian pine)	5 135
Veneers (eucalyptus)	9 820
Veneers (larch)	16 380
Furniture (eucalyptus)	21 000

/Again in

Again in connexion with Chile's export experience, it can be noted that very significant efforts have been made to develop the furniture industry for export. To date the results achieved have been moderate, owing to a number of domestic factors, which include low labour productivity; lack of quality control; excessive number of designs; inadequate techniques and equipment; lack of a proper organization to support medium- and small-scale enterprises, which make up the bulk of the potential export sector; shortages of certain inputs of export quality (100 per cent artificially dried wood, varnishes, hardware); and lack of exportmindedness in entrepreneurs (this is one of the most important components of any strategy to develop production for export: the creation or encouragement of exportmindedness in the productive sector, whatever the product).

There are also a number of complicating external factors, which include: lack of information about marketing methods in the chosen markets; lack of a good marketing structure; and lack of knowledge about a proper strategy for winning access to foreign markets.

In the case of wood veneers, for which there is a very sizable potential demand in the international market, especially in Europe, the problem is of a different nature. It is not so much a question of domestic difficulties or local adaptability, but of taking action abroad on such measures as maintaining a permanent stock in key sites close to the consumer markets; the creation of an image of quality or fashion associated with the product being offered; and the selection of an appropriate strategy for promoting and publicizing the product, which can bring about a substantial increase in exports.

Another product which is in a similar situation is parquet flooring, and a market survey covering this product has been undertaken for Chile in co-operation with the UNCTAD/GATT International Trade Centre.

For parquet flooring the internal limiting factors are much less significant but, although the product is excellently placed vis-à-vis the potential market, the local and external measures needed to promote exports, which currently run at a level of just over 200,000 dollars per year, have not been taken.



### 3. Example: agricultural sector products

As in the forest sector, Chile enjoys natural conditions that particularly favour the development of a number of agricultural products, especially fruit.

Chile is already a traditional exporter of temperate-zone fruit, and is able to take advantage of the difference in seasons between the northern and the southern hemispheres which gives it access to international markets at times when local production is halted.

A detailed programme for fruit development has been worked out in Chile, the first phase of which is to expand the supply of the raw material.

The second phase consists in the manufacture or processing of the raw material in the form of fruit preserves, pastes, purees, juices, concentrates, jams, etc.

Exporting fruit in processed form has a number of highly attractive advantages which include:

(a) Advantages of processed products:

- More value added over the raw material;
- Less stringent freight requirements than for fresh products;
- More flexibility in marketing, owing to better storage possibilities than in the case of fresh products, which are usually highly perishable.

The following problems involved in the industrialization of agricultural products for export should not, however, be overlooked:

(b) Requirements in connexion with processed products:

- Accurate information about the most favourable markets, including data on sources of supply, prices, marketing channels, health specifications, methods and types of packing, etc.;
- Production units whose equipment and technology is consistent with world prices and quality standards;
- Local infrastructure capable of providing the necessary services for enterprises which are not large enough to gain access to the world market on their own;
- Trained technical and production personnel who can produce articles under satisfactory conditions as to productivity, technical characteristics and quality, at suitable prices.

- A system of transport inside the country and to other countries which ensures prompt and efficient supply;
- Availability of inputs other than agricultural raw materials, of adequate quality, which sometimes present difficulties (tinplate, miscellaneous chemical products, sanitary varnish, etc.);
- Choice of products which are not over-sensitive to market fluctuations or contingencies. For example, it would not seem reasonable to concentrate on or make a special effort to produce superfluous consumer goods, which could be replaced or eliminated from consumer habits in the event of any exchange problems or difficult situations arising in the importing country.

#### 4. Comments

The factors listed above are of vital importance, but do not constitute an insurmountable difficulty. It is essential to adopt an integral approach to the question, however, bearing in mind that an external market approach often involves effort and sacrifice which it is not always easy to quantify and may at first sight not be sufficiently attractive to act as a spur to industrial development, while an integral approach is precisely what encourages a country to concentrate its best efforts on the external sector.

Mention must be made here of an integral factor of key importance in the export process; the development of an export mentality or consciousness.

Although this factor is present in the analysis or preparation of an action programme for a specific product, the approach should be at the national level, comprising both the government sector and production and services. In other words, there must be an integral approach to the question.

The strategy or procedure for dealing with the question may vary according to the situation and characteristics of each country; but the experience of other nations is certainly of great value.

Despite its great importance this question is not dealt with more fully in this study as it will certainly be the subject of other specific documents prepared for the meeting.

## V. EXPORT OF LABOUR

The export of labour through the development of production for the external market is an objective of many developing countries, which are faced with the imperative need to create new sources of employment for the population which is incorporated in the productive process every year.

The volume of exports of goods produced by labour-intensive industries is undoubtedly significant, but the following local prerequisites must be met if their purpose is to be fully achieved:

1. The value added under the head of labour must be accompanied by a sufficiently high level of productivity to obtain a really advantageous cost structure for the export product concerned.

It must be borne in mind that, although the cost of labour in industrialized countries is substantially higher than in developing countries, its productivity is also appreciably higher.

2. The sale of manpower through an exported product should, as far as possible, represent skilled manpower, either technical or artistic.

This entails not only increasing the value of the local human resource, but also, in some degree, offsetting the higher cost of certain local inputs or services, and that of freight to the point of destination.

Special emphasis is placed on increasing the value of manpower, either technical or artistic.

This is precisely the means whereby industrialized countries where labour is expensive have been able to export valuable products, with labour absorbing a large share of their cost, which have gained access to the markets of both developed and developing countries.

Some examples of this are the Swiss or German optical and precision instruments industry, which is based on highly skilled labour; the Italian footwear industry, and Danish manufactures of artistic and ornamental articles, where the high cost of labour is counterbalanced by exceptionally skilled artistry.

3. As regards articles produced with a high proportion of skilled labour, from the technological standpoint, the approach or strategy adopted by each country with respect to the transfer of technology is a matter of great importance.

/For example,

For example, if a developing country takes the assembly of household electronic products (radios, television sets, intercommunication equipment, etc.) as a target, without envisaging successive stages of increasing integration of local components, it will lose the opportunity of creating new sources of activity or employment in the manufacture of components which normally involve more complex techniques and, therefore, more valuable specialized manpower.

4. An important aspect of a country's strategy for exporting products based on labour is to specialize in certain lines and, within those limits, to create an image, either of design, quality, colour, etc.

This strategy enables the product of a given country to stand out and have more value than that of another country, which may be similar but lacks the image surrounding the first.

5. There are a number of activities which, because of their high labour content or demand, are attractive to a developing country with employment problems; but highly labour-intensive production can often be replaced by production based on automation or the intensive use of capital resources.

If a bigger share of labour represents a genuine advantage in industries of the former type, they will have good prospects; but if it results only in an artisan-type activity which is appreciated by no more than a fraction of the market, it will be difficult to maintain the necessary production, competitive and price levels.

A case in point is Chile's furniture export programme. This industry's limited but valuable output, of an artisan-type character, enables it to enter the market; but it would be quite unable to compete with the production of plants with a high degree of automation in the much larger market for mass-produced furniture.

Another possibility of competing with automated production is to specialize in products manufactured in "short production series"; although the production operations are mechanized, manpower has a more important function here.

/An interesting

An interesting example of a case where export products have a high labour content is the manufacture of footwear, which comprises 100 to 150 separate operations according to the type of shoe. This involves operations in which manpower simply cannot be replaced by machines, but production can be made more efficient and labour productivity can therefore be improved.

This is precisely one of the reasons why the highly industrialized countries where labour is costly are able to compete and keep their place in the export market for this article (the United Kingdom, Switzerland, France, Italy, Spain); but the trend is for developing countries to increase their share in world trade as their labour productivity improves, among other factors.

## VI. SOURCE OF EXPORTABLE PRODUCTION

The source of production for the export market can be classified as follows: (a) products deriving from the utilization of surplus installed capacity; and (b) products deriving from industries developed on a strictly export basis.

### 1. Exports based on surplus installed capacity

#### (a) Reasons for idle capacity

There are a number of sectors in developing countries in which industrial equipment and plant are not utilized to capacity. There are several reasons for this:

(1) There may be a minimum economic size for plant installed in productive industries considered to be essential to the country's development because of their importance as a means of economising foreign exchange, as a source of employment, or as a way of allowing for future domestic demand. When this happens, domestic demand at the time of installation is smaller than real productive capacity.

(2) There is a trend in developing countries towards a diversification of industrial production, which means maintaining certain degree of idle capacity.

(3) Surplus capacity also frequently stems from too many Government incentives, in the form of duty-free importation of capital goods, excessive tariff barriers against similar imported products, etc.

(4) There may be too little operating capital available for full advantage to be taken of fixed capital investment.

(5) A further reason may often be the attractiveness of installing a substantially greater industrial capacity than is required without significantly increasing the volume of investment in fixed assets.

At first sight, it is extremely tempting to promote exports simply by using up surplus installed capacity, diverting the extra production to the export market. The advantages are self-evident and need no further explanation. However, some possible disadvantages, limitations or errors attached to such a proposition should also be pointed out.

/(b) The

(b) The limitations of this kind of export policy

(1) Apparent surplus capacity sometimes derives from technological shortcomings, such as the use of out-of-date equipment, that preclude any possibility of producing an article that measures up to international competition in terms of quality, price, finish, etc.

(2) Surplus capacity may be a temporary phenomenon, so that, as soon as local demand increases, additional production will be channelled back into the domestic market where there are better marketing facilities, a more attractive sales price or high protective tariffs. If this is the case, then not only will the export promotion effort be wasted but a bad image may also be created owing to the breakdown in export supplies.

(3) Quite apart from the above, surplus capacity may derive from a piecemeal or an autarkical industrial structure that does not permit of economies of scale and competitive specialization in the international sphere.

(c) Possible steps

An export promotion policy based on the utilization of surplus installed capacity should envisage the following steps:

(1) An analysis should be made of the production supply deriving from the utilization of excess capacity and of the external market. The analysis should be both qualitative and quantitative and allow for the maximum number of factors that determine whether or not an export operation actually takes place.

(2) Once the export objectives and priorities have been defined, the productive industries must be provided with the necessary incentives to utilize their exportable potential more effectively.

(3) The decision to utilize surplus capacity for export purposes presupposes the existence of an infrastructural organization, involving the creation of quality control units, packing units, domestic transport facilities, credit facilities, etc.

(4) The promotion of an export awareness is another element of the general strategy and, as mentioned above, is a comprehensive venture that involves both the productive sector and the Government and its export departments.

Exporting non-traditional goods frequently requires a change of economic outlook that may mean, a priori:

- Sacrificing a legitimate profit today so as to open up a market tomorrow and earn profits the day after tomorrow - though still less than those that the producer is accustomed to;

- Sometimes being obliged to import products similar to those whose export is being promoted so as to keep a place in the world market and/or meet commitments in markets that are open to exports;

- Carrying out infrastructural investment, probably without its having specifically been given a high priority by the country's planning agencies;

- Accepting an economic sacrifice, in the case both of the producer, when he sets his export price or marginal profits, and of the Government, which has to take a tax loss in the form of draw-back or some other reduction in capital income;

- Investing or spending foreign exchange (frequently without any certainty of recovering the amount disbursed) with a view to opening up a market, carrying out a study, conducting a promotional campaign, etc.

The creation, operation and improvement of the services mentioned above mean a considerable sacrifice for developing countries; it is impossible, therefore, to think in terms of a far-reaching policy of massive utilization of all surplus capacity.

A policy of this kind should be selective and in tune with the definition of objectives, targets and priorities fixed by the country. It is important to select, from the start, a few production lines where the utilization of surplus capacity can be effective immediately. This makes it possible: (a) to become familiar with the problems of the external market in order, subsequently, to establish new strictly export-oriented industries (in which case it is essential to have an analysis of the country's relative advantage or otherwise in terms of availability of raw materials, manpower and technology); (b) to use surplus capacity for export-promotion purposes in other sectors which require a more substantial process of adaptation or implementation.



## 2. Exports based on export-oriented industries

### (a) General situation

In most developing countries, this type of industry is usually based on the exploitation of local raw materials rather than technology or qualified manpower. This is fairly obvious, since one of the problems of developing countries is precisely their inability, or limited ability, to develop their own technologies or to obtain a successful transfer of know-how.

As for promoting exports on the basis of manpower, this applies essentially to qualified manpower with specialized training in certain branches of manufacturing.

In such cases, the availability of abundant manpower at a lower cost than in developed countries is naturally combined with adequate productivity and with technical qualifications commensurate with the requirements of the world market.

Striking cases of export industries based on technology and manpower are to be found above all in Asia. Two outstanding examples are the Republic of Korea, which has developed an excellent industry producing wood products, based on the forestry resources of neighbouring countries which it processes with the aid of qualified manpower and modern techniques, and Israel, which, in the space of a few years, has become the centre of the diamond-cutting industry and a major producer of portable computers - the first being a typical case of utilization of qualified manpower and the second of advanced technology.

Another interesting case is the electronics industry which has also flourished in certain South-East Asian countries.

As to the growth of export-oriented industries using raw materials or natural resources, this is a legitimate aspiration of every country. It may, however, often pose problems or difficulties that may be of a technological, financial, infrastructural, etc., nature or have to do with human resources.

From the vast number of possible examples, whether they relate to the raw materials themselves or to a product in whose manufacture they are to be used, it might be useful to select a specific case for closer examination. Although no attempt will be made to formulate universally valid generalization

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on the basis of this one example, it should be possible to obtain a picture of the kind of problems and difficulties that may arise and the possible steps that could be taken to circumvent them.

(b) Example: Chilean exportation of copper manufactures

Chile is today the world's biggest exporter of raw copper which is also its largest source of income. However, while raw copper accounted, on average, for 70 per cent of the country's total exports between 1966 and 1969 exports of copper manufactured amounted to hardly more than 1 per cent during the same period.<sup>3/</sup>

Recently, efforts have been made to boost exports of manufactures by means, first, of utilizing idle capacity and, secondly, of developing export-oriented manufacturing industries. Possibilities have been looked into in the markets of both highly developed and developing countries, as well as in markets where Chile could benefit from preferential tariffs, such as the ALALC and Cartagena Agreement countries.

Along the same lines, it is interesting to note some of the limitations or obstacles that face an attempt to increase Chile's exports of copper manufactures and that reveal a situation that might also be valid for other developing countries and other products.

The limitations and obstacles affecting the promotion of exports of manufactured goods on the world market include: absence of suitable technology for breaking into the market, since the manufacturing techniques in use are frequently out-of-date or have been improved upon; insufficient quality control - a factor which is closely linked to the question of technology; packing processes that do not conform to the standards and requirements of the importers; existence of installed capacity in the importing country for producing similar goods; a tendency among industrialized countries to establish highly specialized and high-output industrial complexes

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<sup>3/</sup> Average values in thousands of United States dollars (1966-1969):

- Exports of industrial copper products	13 815
- Total exports of industrial products	81 381
- Total exports of raw copper	760 000
- Total exports of Chile	1 009 000

Source: Central Bank.

/against which

against which it is difficult to compete; the absence of a proper image as an exporter, resulting in a lack of confidence in the quality, quantity and suitability of the goods offered; lack of knowledge of the marketing and distribution conditions for both industrial and final products.

These are some of the obstacles that usually apply to exports to industrialized countries. In the case of exports to developing countries, there are further barriers: similarity between the goods offered and those for which local installed capacity exists, often to excess; lack of knowledge of the purchasing programmes and requirements of the markets chosen; the developing countries' familiarity with, and habit of buying from, certain established suppliers, usually in developed countries; the use of substitute products which, though inferior in quality, are imported for reasons of factor costs or simply out of habit; the inclusion of the type of goods offered in bilateral agreements which, owing to the method of payment used, often represent a serious barrier; existence of international enterprises that prefer to buy from their subsidiaries or from other enterprises in which they have a capital holding, often at lower prices or under better supply conditions.

It would be wrong, however, to stress only the negative aspects as this would mean losing sight of the aim of the present study, which is to make a modest contribution to a better awareness of the problem and toward a satisfactory solution.

(c) Solutions

Taking the case of copper manufactures which, in general terms, is also valid for other sector, the possible solutions or lines of action include:

- (1) Specializing in specific products or production lines;
- (2) Acquiring modern technologies, in respect of production techniques, quality control, packing and presentation;
- (3) Launching promotional campaigns in the selected markets so as to create a favourable image;
- (4) Analysing local conditions in detail, so as to define a sales strategy - such as whether to sell final or intermediate products, or else parts and components;

/(5) Choosing

- (5) Choosing products that, as far as possible, do not have to compete with local industries and, where this is unavoidable, planning the export programme in such a way that there is a domestic added value (through complementarity agreements, local supply of parts and components, finishing process, assembly, etc.) - this is especially applicable to exports to developing countries which usually have to use their financial resources and domestic manpower prudently;
- (6) Carefully analysing local conditions and the supply sources of the importing countries, since many countries are supplied by agents or companies that serve strictly as commercial intermediaries;
- (7) Allocating production quotas among countries, in accordance with their stocks of raw materials, manpower resources and level of technology - this is particularly applicable to an economic group such as the Andean countries, where genuine and harmonious economic growth could be achieved by means of prior negotiated planning;
- (8) Creating multinational enterprises to promote an economic activity in both the exporting and the importing country, on a complementarity basis or by allowing for a domestic added value - this is especially interesting when the selected market is in another developing country.

/VII. CONCLUDING

## VII. CONCLUDING COMMENTS

Determining criteria for the selection of products for the export market is a rather complex matter that cannot be resolved on the basis of a single general formula or methodology applicable to each country or case. As shown in the preceding chapters, all sorts of factors relating to local resources such as labour, raw materials, technology, capital, infrastructure, etc., are involved, and it is necessary to undertake an exhaustive analysis of each of these factors and to determine the situation of each product and the situation of external market demand.

The operations to be effected in this selection process include the following:

(a) Identification of the principal markets having a demand for the product, with the emphasis on market characteristics. For example, whether the demand is seasonal or year-round; whether the market has a rising, stable or falling trend; whether there is a likelihood that there will be competition from local producers or from new sources of supply with comparative advantages (i.e., similar products originating in countries benefiting from preferential treatment, etc.).

(b) The above requires complete information about the state of the external market, or in other words a system or organization to provide comprehensive, useful and timely data.

(c) In addition to considering demand in the external market, it is also necessary to know the local profile of supply. This includes complete information about the product in terms of exportable volume, quality, costs, standards and specifications, delivery dates, internal transport and transport abroad, packing, etc.

(d) It is also necessary to find out about the infrastructure for the product, for example, the organizational aspects of exporting and marketing the product; financial and administrative facilities; potential distribution and sales promotion channels; the trends and marketing characteristics of similar products being exported by other countries; investment programme and production targets; potential for domestic consumption and for export.

/Furthermore, the

Furthermore, the external trade variable cannot be looked at in isolation but must be viewed against the over-all background of national economic development programmes. This means that export development strategy must be in line with over-all national economic programming, which itself has to do with the same aspects that affect criteria for the selection of products for export.

Clearly, it is not possible to envision an over-all development strategy to develop new products for export based exclusively on only one of the factors considered. The whole must be a harmonious and perfectly balanced blend of suitable amounts of each of the factors that are of significance for the product, in accordance, with the relative status of each factor domestically and in the external market.

In addition to the stated objective, which is for the meeting to develop a methodology or criteria of a general nature, it is useful to consider the different options open, their limitations, advantages and prospects, the possible ways of preventing problems, and the advantages of future action.

The fact that the present study is a discussion document has meant that the approach taken has been to provide the basis for a discussion rather than to develop a model or a methodology.



